

# ***DCMA Field Support Division Conference***

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## ***Payment and Financial Management Services***



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### ***Progress Payments Based on Costs Chapter 9.2***

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- **What to look for**

***Fixed Price contract w/ Progress Payment clause***

***Requirements identified in contract***

- **E.g., First Article, Multiple ACRNs on other than FFP, special payment instructions, mixed type, etc.**

***Supplier prior performance, status of business systems, ability to manage costs, company financial condition. use of EDI***

- **Standard key processes**

***Mgmt of Company Financial Condition***

***Mgmt of Costs***

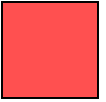
***Mgmt of Business Systems***

**“Financial analysis which addresses the supplier’s overall liquidity, cash flow, backlog of work and financial posture...”**

# Risk Assessment

## (Sample Rating of a Key Process)

- **“Management of Companies Financial Condition” - P/C/S High Risk**

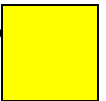


“...financial capability relatively unstable, ability to complete the contract may be threatened by significant changes (mergers, takeovers, etc) in the corporate structure and management.”

*Use risk matrix - Potential for adverse performance & schedule impacts very likely, may impact cost as well*

- **Impact: Why This is a Key Process**

*Major impact If supplier financially unstable. If financing not available, **performance** risk is high. Supplier may not be able to complete contract, even with progress payments.*



- **Risk Reassessment to - P/C/S Moderate Risk**

*Financial capability stable, but significant changes (mergers, takeovers, etc) may affect historical*

# Risk Handling

## • Risk Handling Tool: Review of Financial Condition

### Intensity

- Perform or obtain from financial analyst, reviews of supplier's financial condition
- Meet with supplier & auditor to review problems detected and contractor's planned corrective actions (eg commercial financing)

### Frequency - Quarterly

Schedule (example) - 1st week, Jan, Apr, Jul, Oct each year

## • Rationale for Risk Handling Tool

*Since Management of Financial Condition is a known high-risk key process, need to establish ways to mitigate the risk. By reviewing financial condition, adverse changes in*

# Risk Monitoring

- **Monitoring assessed risk for impact on risk rating**

*Monitor progress in contractor improvement (improved cash flow, financial ratios)*

*Monitor contractor progress in implementing planned corrective actions (e.g., obtaining additional financing)*

- **Risk handling adjustments if risk handling methods aren't resulting in improvements**

*Consider reviews of other supporting business systems (e.g., Accounting, MMAS, Quality, etc.)*

*Consider suspending progress payments if liquidation in doubt*

- **Rationale for Risk Monitoring**

*Documenting contractor performance in this key process identifies problem (risk) areas and trends, thus allowing us*

# Risk Documentation

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- **Documentation is required for Risk Planning, Assessment, Handling, and Monitoring**
- **Reassessments and changes to any elements of risk management must also be documented; this includes progress made to date in risk handling and monitoring efforts**
- **Documentation is one method to communicate to your team, buying office, and supervisor your efforts on**

# Progress Payments Based on Costs

**For more information, contact your District Process  
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